

# IRS News Release

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## **IRS Seeks Comments on Updates to Corporate and Partnership Tax Forms**

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WASHINGTON — The Internal Revenue Service has released for comment and discussion draft revisions to Form 1065, U.S. Return of Partnership Income, and Form 1120, U.S. Corporation Income Tax Return. The IRS plans to have the forms and related schedules ready for use for taxable years ending on or after Dec. 31, 2008. Comments are due from the public by Sept. 14, 2007.

The changes to Forms 1065 and 1120 will provide the IRS with a more accurate understanding of these entities and their ownership structures. The proposed changes will enable the IRS to focus compliance resources on returns and issues that warrant examination. The IRS is soliciting comments from the public as to whether the proposed revisions will enhance compliance and the extent to which the changes may affect taxpayer burden.

“The current business models of our taxpayers involve multiple entities operating in different forms, both foreign and domestic,” said Deborah M. Nolan, Commissioner of the Large and Mid-Size Business Division. “These changes are designed to increase the transparency of the relationships between entities that make up these enterprises, enabling us to be much more efficient and effective.”

The major change to Form 1120 involves ownership. In particular, a corporation will be required to identify entities which own 10 percent or more of the corporation and individuals who own 50 percent or more of the corporation. A corporation will also be required to identify any foreign or domestic corporation in which it owns 10 percent or more of the total stock voting power, any disregarded entity that it owns and any foreign or domestic partnership or trust in which it owns an interest of 10 percent or more.

Additionally, a new Schedule B is added for Form 1120 filers required to file Schedule M-3. New Schedule B asks questions concerning ownership, allocations, transfers of interest, cost sharing arrangements and changes in methods of accounting. Small corporations, those having less than \$10 million in assets, will not be required to file the new Schedule B.

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The major changes to the Form 1065 also involve ownership issues. The revisions add new questions to the existing Schedule B. The revised Schedule B includes reporting requirements for partnerships having complex ownership structures. These partnerships are required to identify entities having direct and indirect (through attribution) ownership interests of 10 percent or more in the partnership and to identify entities in which the partnership owns interests of 10 percent or more. The revised Schedule B also asks for information about cancelled debt, and like-kind exchanges that the partnership may have participated in at any time during the tax year.

Additionally, for Form 1065 filers required to file Schedule M-3, there is a new Schedule C requiring the partnership to provide additional information about related party transactions. The new Schedule C also asks for the identity of individuals or entities owning 50 percent or more of the partnership and of other entities required to file U.S. income tax returns.

Minor revisions have been made to Schedule K-1. These revisions require the partnership to identify contributions and distributions of built-in gain or loss property and to identify the maximum percentage of a partner's share of profit, loss and capital in cases where those amounts change during the year.

Some small partnerships will have a reduction in burden, as the asset threshold for filing certain schedules with Form 1065 has been increased from \$600,000 to \$1,000,000. However, partnerships with complicated ownership structures, related party transactions, contributions and distributions of built in gain or loss property, special allocation issues and optional basis adjustments may spend more time providing information.

The IRS has taken care to ask only for information that in most cases will be readily available. The redesign of the Forms 1065 and 1120 is based on two guiding principles:

- Promoting compliance by accurately reflecting the entity's ownership structure so the IRS may efficiently assess the risk of noncompliance; and
- Minimizing the filing burden on most taxpayers by requiring this information only from complex entities.

The redesigned forms are available under [Draft Forms](#) on IRS.gov.

Questions and comments should be e-mailed to the IRS at [Judith.A.McNamara@irs.gov](mailto:Judith.A.McNamara@irs.gov) by Sept. 14, 2007.